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Poultry and Products Annual

Further Growth Expected for EU-28 Broiler Sector in 2015

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Report Highlights:

EU-28 broiler sector is expected to grow in 2014 and 2015, benefiting from slowly increasing demand, since it is less affected than other meats by the economic recession. Brazil and Thailand will remain the largest suppliers of broiler meat to the EU-28. EU-28 broiler meat exports are expected to decrease slightly in 2014, mainly due to the Russian embargo and increased South African tariffs on EU poultry meat, but should increase in 2015. However, the **turkey sector** in the **EU-28 resumed its decline** as both trade and consumption are expected to decrease.

Executive Summary:

The EU-28 broiler sector is expected to continue to grow in 2014 and 2015, benefiting from slowly increasing domestic demand and because it is less affected than other meats by the economic recession since it is cheaper and more convenient. The overall EU-28 production in 2014 encompasses various situations, but **broiler meat production is expected to increase from 2013 in most major EU producing countries**, including the UK, Benelux, Spain, Poland, Germany Italy but will decline in France which was hit by the removal of the EU-28 export subsidies.

The hike in global grain prices in 2012 and 2013 directly impacted broiler production costs, although producers were able to pass most of the increase on to their domestic customers. They were therefore able to maintain their operational margins or saw them lowered only slightly. The significant decline in grain prices in late 2013 and 2014 and expected price weakness in 2015 are likely to boost broiler meat competitiveness and **increase operating margins**, even if retail prices decrease.

The EU-28 broiler trade surplus is expected to remain stable in 2014 and 2015 in light of stagnant imports and slightly decreasing exports. Brazil and Thailand remain the largest suppliers of broiler meat to the EU-28. The opening of the EU-28 market to Thai un-cooked broiler meat on July 1, 2012, led to a significant increase in exports of Thai salted and frozen broiler cuts and parts to the EU-28 to the detriment of Brazilian exports. It has been reported that the quality of Thai broiler meat exports better suits EU importers' needs.

EU-28 broiler meat exports are now expected to decrease in 2014, due to both the Russian embargo on certain EU food products imposed in August 2014 and the decrease in exports of French frozen whole broilers to the Middle-East region after the suspension in July 2013 of all EU-28 poultry meat export restitutions. Those lost volumes in frozen whole broilers were not fully compensated by exports of low-priced cuts and mechanically deboned meat (MDM) to Sub-Sahara Africa were affected, especially South Africa and Ghana. South Africa is now becoming the largest customer of EU-28 broiler meat, closing in on Saudi Arabia. The increase in import tariffs in South Africa in July 2014 is likely to slow down the growth of EU-28 exports to this region. **Exports are expected to resume their growth in 2015**, especially since lower production costs, due to lower world grain prices, should increase EU-28 broiler price competitiveness.

While all sources show that total meat consumption in the EU-28 has been negatively impacted by the economic recession, **poultry meat, which is the cheapest source of protein, was less affected**. Its consumption per capita is stable or slightly increasing. In the EU-28, sales of cheaper broiler cuts also increased faster than sales of more expensive parts, such as breasts or whole birds.

EU-28 turkey production is now expected to decrease in 2014 and 2015, after a temporary surge, due to production hikes in the UK. Turkey meat imports should remain stable in 2014 and 2015 under import quota control. French turkey exports to Africa are expected to remain stable but German and Dutch exports to Russia are going to be impacted by the Russian embargo. After stabilization in 2012, mainly due to in-store promotions in UK, **turkey meat consumption in the EU-28 as a whole is expected to resume its decline in 2014 and 2015**.

DISCLAIMER

The numbers in the PSDs in this report are not official USDA numbers, but they result from a collaborative effort by FAS EU offices to consolidate PSDs from all 27 EU member states.

This report is the result of active collaboration with the following EU FAS colleagues in the following member states:

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Commodities:

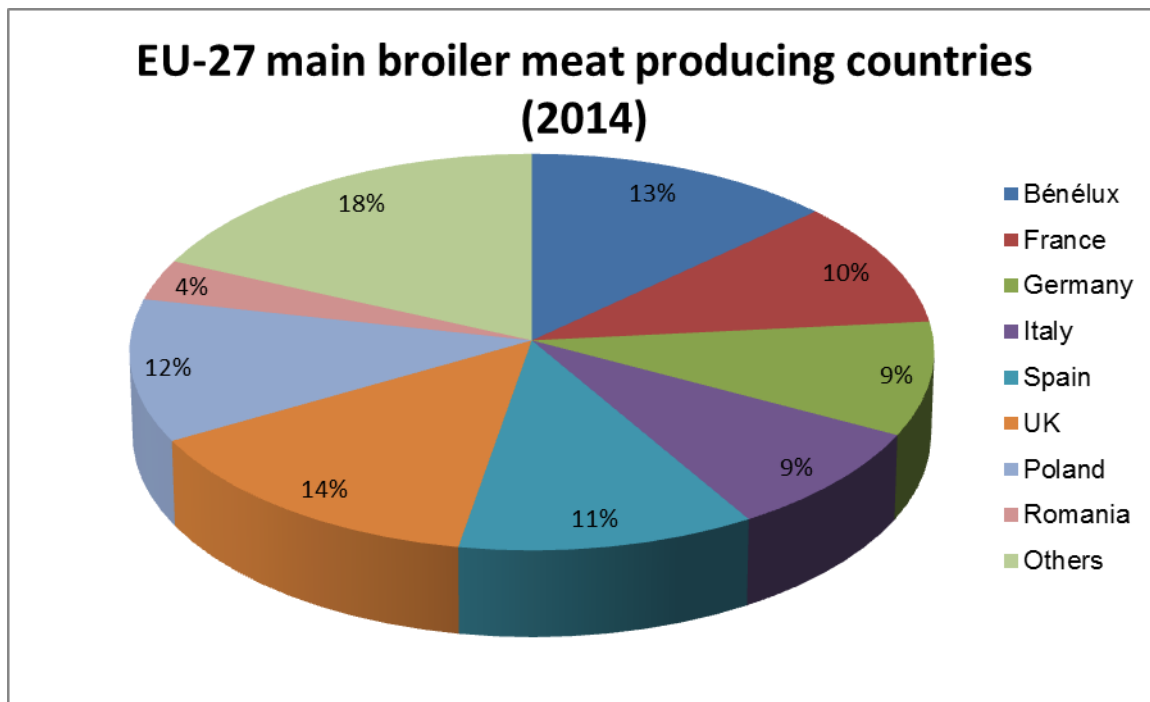
Poultry, Meat, Broiler

Production:

The EU-28 broiler sector is expected to continue to grow in 2014 and 2015, benefiting from slowly growing domestic demand, since it is less affected than other meats by the economic recession because it is cheaper and more convenient.

The overall EU-28 production in 2014 encompasses various situations, but broiler meat production is expected to increase from 2013 in major EU producing countries, including the UK, Benelux, Spain, Poland, Germany and Italy. However, French broiler production is expected to decline in 2014, mainly due to the loss of export markets in the Middle East after the end of EU-28 export subsidy scheme, the bankruptcy of the DOUX poultry company, and the ongoing difficulties of the TILLY SABCO company which, despite reducing its production by 40 percent, is on the verge of bankruptcy and will probably not survive much longer.

With a very limited rebound in the EU-28 economic situation foreseen for 2015 (a situation which favors cheap protein sources leading to continued strong domestic demand for poultry meat) combined with continued export demand, EU-28 broiler production is expected to grow again in 2015, albeit at a slower rate. **However, the short, two-month production cycle of the broiler industry makes it very reactive to outside events, both on the upside and downside, making accurate forecasts more difficult.**



(Source FAS Posts)

Consumption:

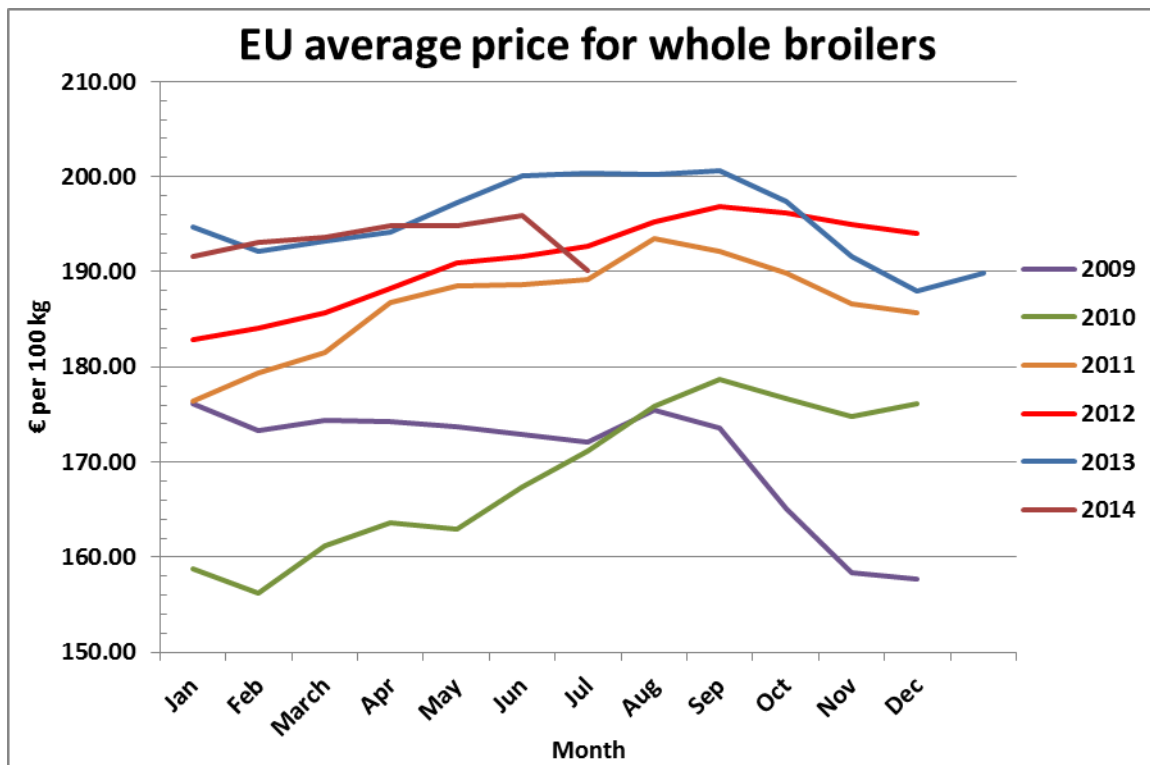
While all sources show that total meat consumption in the EU-28 has been negatively impacted by the economic recession, broiler meat, which is the cheapest source of protein, was less affected. However, its consumption growth is less than demographic growth, which means that per capita consumption is basically stable. Several market analyses showed that, while EU-28 consumers generally switched from beef or pork meat to broiler meat, the low income consumers reduced their protein purchases, switching to carbohydrate products (bread, pasta) with the exception of Spain, where pork meat is preferred over broiler meat.

In the EU-28, sales of cheaper cuts (legs and wings) also increased faster than sales of more expensive parts, such as breasts or whole birds. This trend is expected to extend into 2015 in the absence of any economic recovery.

In several EU countries, such as Germany, France and Poland, the switch to broiler meat is enhanced by the belief that it is a healthier and leaner meat and more convenient to cook and prepare. It is also considered easier to prepare for catering and restaurant use than other meats.

Price:

While the hike in global grain prices in 2012 directly impacted broiler production costs, data shows that producers were able to pass most of the increase to their domestic customers (see chart below), maintaining their operating margins or only lowering them marginally. The significant decrease of grain prices in the EU-28 since the spring of 2013 and especially in 2014 has increased operating margins, even if retail prices decreased, and are expected to continue to decline in 2014 and 2015 increasing broiler's meat competitiveness versus other meats.



(source CIRCA)

A [recent production cost study](#) commissioned by the European Association of Poultry Processors and Trade (AVEC) led by Professor [Peter Van Horne](#) from the Dutch University of Wageningen highlighted the lower competitiveness of broiler production in the EU-28 versus Brazil, Thailand, and even the United States. Feed costs, which account for a significant share of broiler production, are, on average, 25 to 30 percent lower in Brazil and Thailand. The report highlights the significant cost of the EU environmental and welfare legislation on the competitiveness of EU-28 poultry. With slaughter and processing costs also lower, total production costs in the EU-28 are, on average, 30 to 40 percent higher than in Brazil and Thailand. However, long-term studies also show that the difference between the EU-28 and Brazil was even higher in the late 1990's and early 2000s, highlighting a slow reconciliation of EU and Brazilian costs, especially feed costs.

A 2010 [EU study](#) also showed that domestically produced broiler breast meat was barely competitive against imported meat, even after payment of import duties. This study and others also indicate that within the EU-28, significant differences remain between Member States (MS) for broiler meat with France being, on average, 0.2 € per kilo (or 13 percent) more expensive than the Netherlands and Germany. The difference is even larger with Poland. This situation explains the shrinking share of France in total EU broiler meat production. It also explains why Polish broiler meat shipments to other MS are increasing sharply, even displacing imported Brazilian meat in Western Europe.

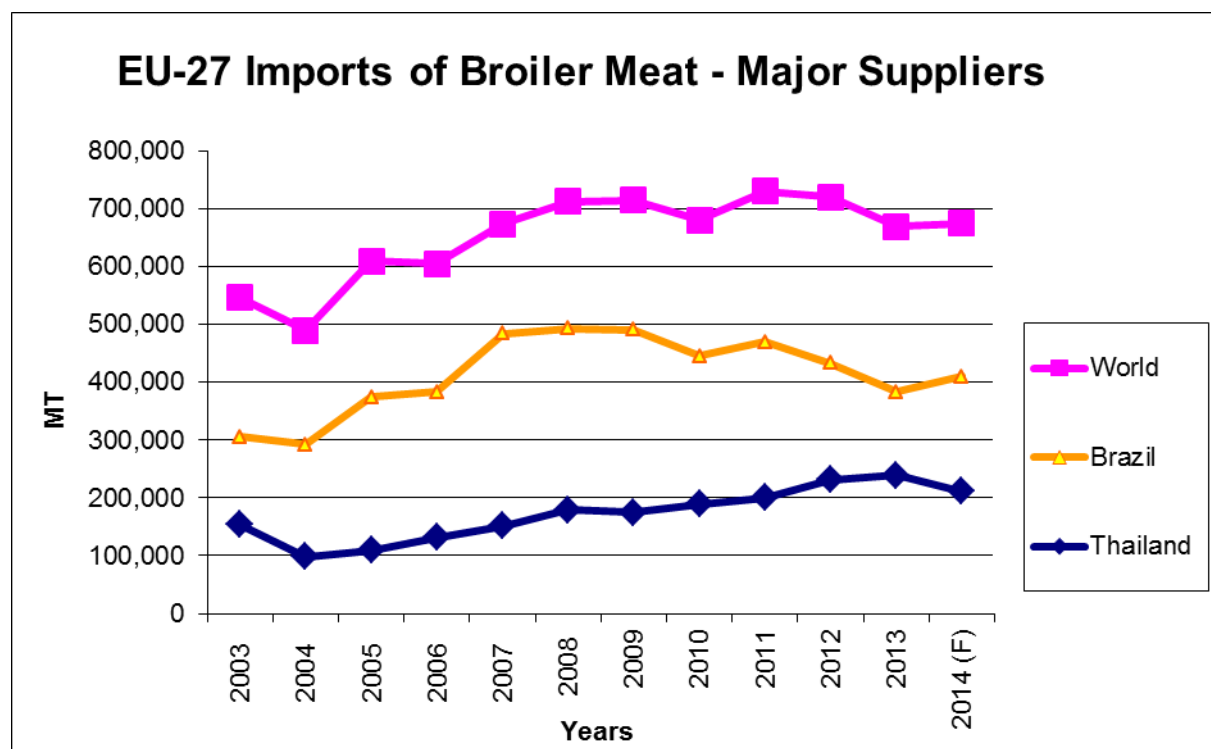
Trade:

The EU-28 broiler trade surplus is expected to remain stable in 2014 and increase in 2015 in light of stagnating imports and increasing exports.

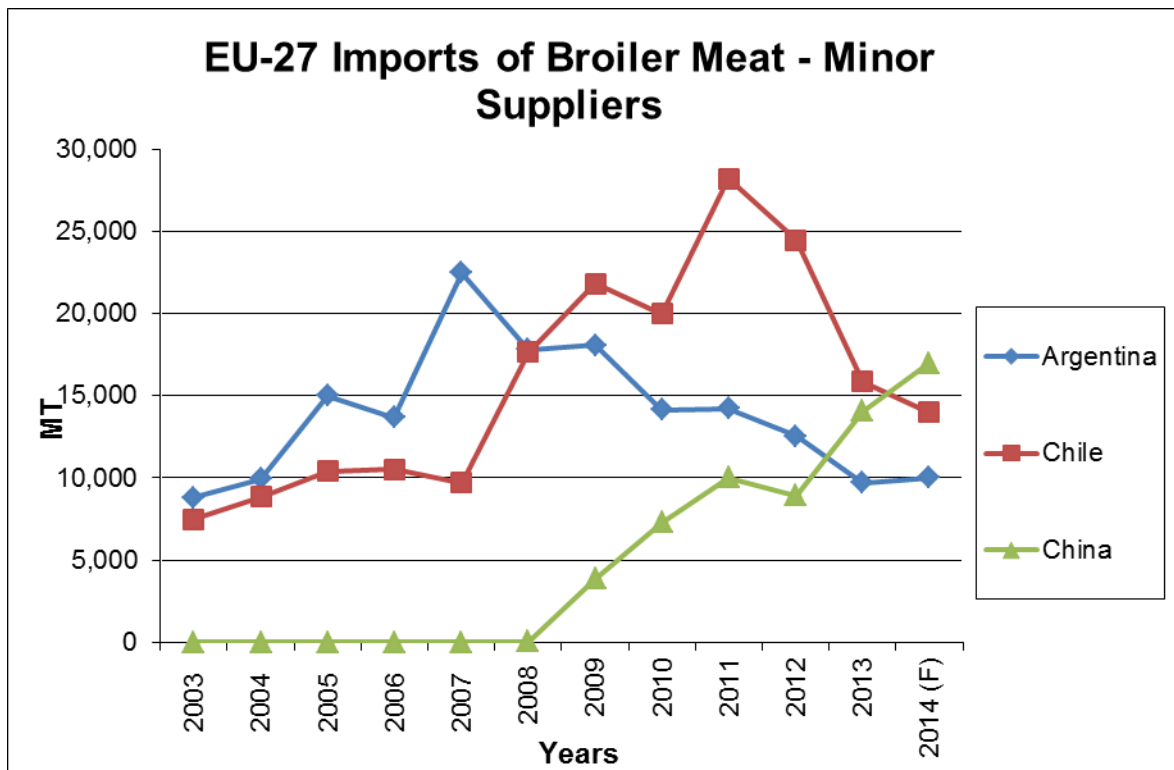
Extra EU-28 Imports

'000 MT	Quota years (July-June)	2008/ 2009	2009/ 2010	2010/ 2011	2011/ 2012	2012/ 2013	2013/2014 *	Quota reg. (EC) No 616/2007 (July-June MY)
020712	Frozen whole	17	17	13	12	10	11	
020714	Frozen cuts	173	141	149	137	136	125	-
16023219	Preparations of chicken meat	321	313	365	360	329	332	251
02109939	Salted, or in brine	209	200	200	205	240	240	264
Total		720	671	727	724	714	708	-

*Forecast - (Source World Trade Atlas)



(Source World Trade Atlas)



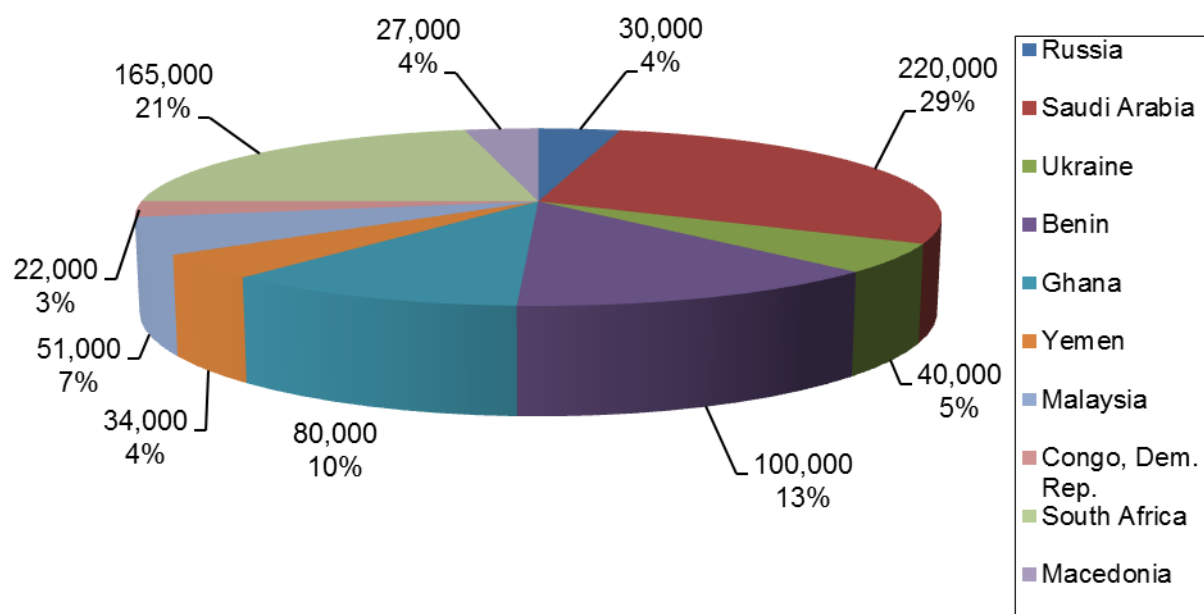
(Source World Trade Atlas)

Brazil and Thailand remain the largest suppliers of broiler meat to the EU-28, followed by Chile and China. On July 1, 2012, the EU-28 reopened its market to fresh broiler meat from Thailand, which had been closed since 2004, due to avian flu outbreaks there. This led to a significant increase of exports of Thai salted and frozen broiler cuts and parts to the EU-28 to the detriment of Brazil exports in the second half of 2012. This trend is expected to continue in 2013 and 2014. Analysts report that the quality of Thai broiler meat better suits EU importer needs in terms of ease of processing. Exports of cooked Thai broiler meat may also decrease following the EU-28 lifting of the ban on uncooked meat. In 2012, imports of broiler imports from Brazil were also impacted by the strength of the Brazilian Real against the Euro. However, the recent devaluation of the Brazilian currency is not expected to boost Brazil broiler meat exports to EU-28 in 2014 as the hike in domestic Brazilian costs are likely to offset, at least partially, by currency movements.

EU-28 broiler imports from China, exclusively cooked and prepared broiler meat, are expected to grow again in 2014 and 2015, with China becoming the third largest supplier of broiler meat to the EU-28 in 2014. The United States, which exported as much as 92,000 MT of broiler meat in 2005 to Romania and Bulgaria, is no longer a supplier to the EU-28, because the EU doesn't accept Pathogen Reduction Treatments (PRTs) which are used by U.S. poultry processors.

Extra EU-28 Exports

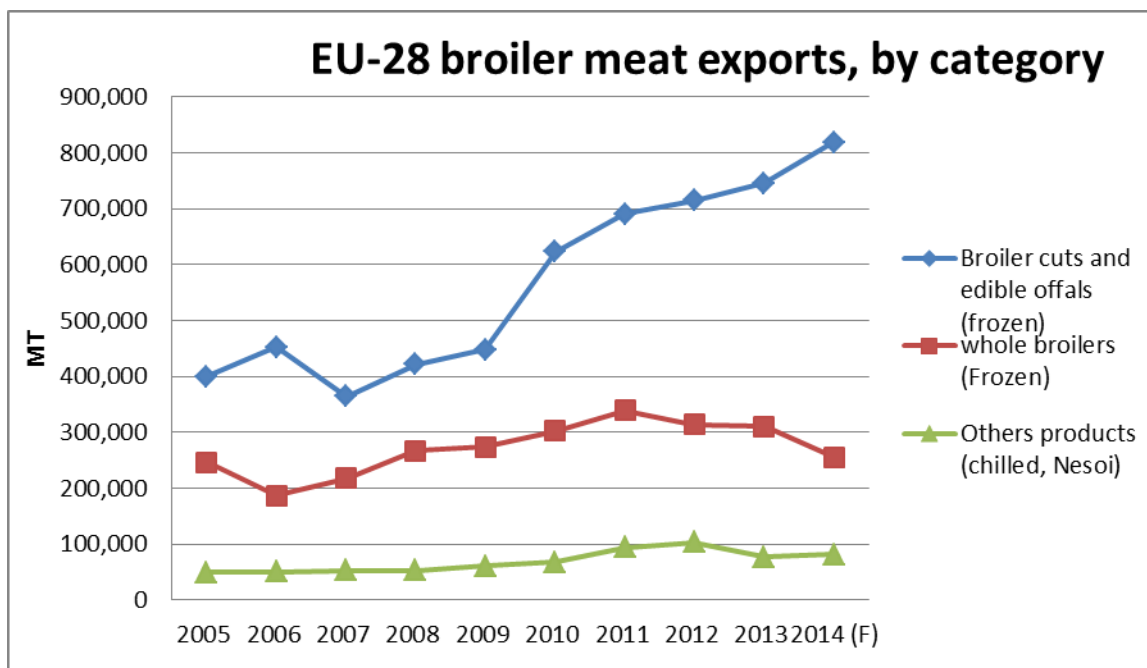
EU-28 Exports of Broiler Meat Major Markets (E) in 2014 (MT, % of total)



(Source World Trade Atlas, FAS Posts estimates)

EU-28 broiler meat exports are now expected to decline slightly in 2014, mainly due 1) the Russian Embargo on EU food products initiated in August 2014 and 2) to the suspension in July 2013 of all EU-28 poultry meat export restitutions which negatively impacted French exports of frozen whole broilers to the Middle-East region, especially to Yemen and United Arab Emirates. The Saudi market seems to be more *resilient* to the end of export subsidies and more capable of absorbing higher prices without visible impact on trade volumes. It also appears that French frozen chicken exports are well suited to the Saudi market, which is looking for smaller birds (less than 1 kilogram, 40 days old at slaughter) which many competitors cannot supply.

EU-28 Exports are expected to resume their growth in 2015, especially since lower production costs, due to lower grain prices, should increase EU-28 broiler price competitiveness. The growth in export will be driven by booming export of bone-in parts and deboned meat.

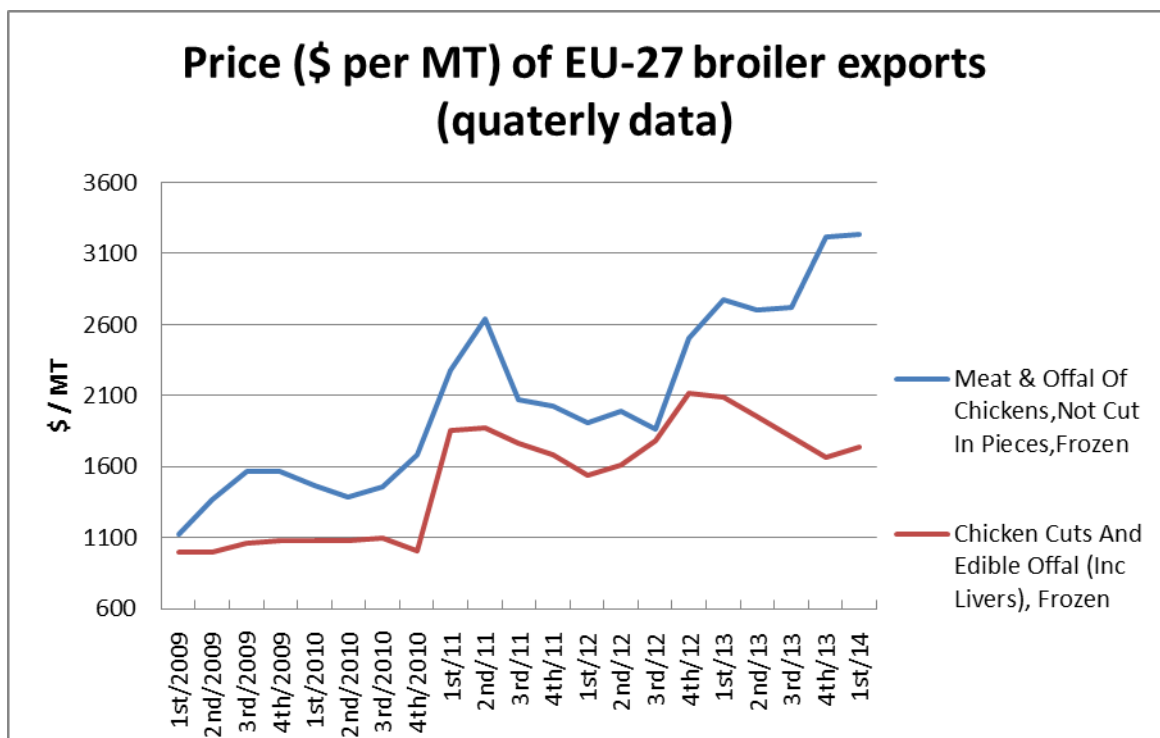


(Source World Trade Atlas, FAS Posts estimates)

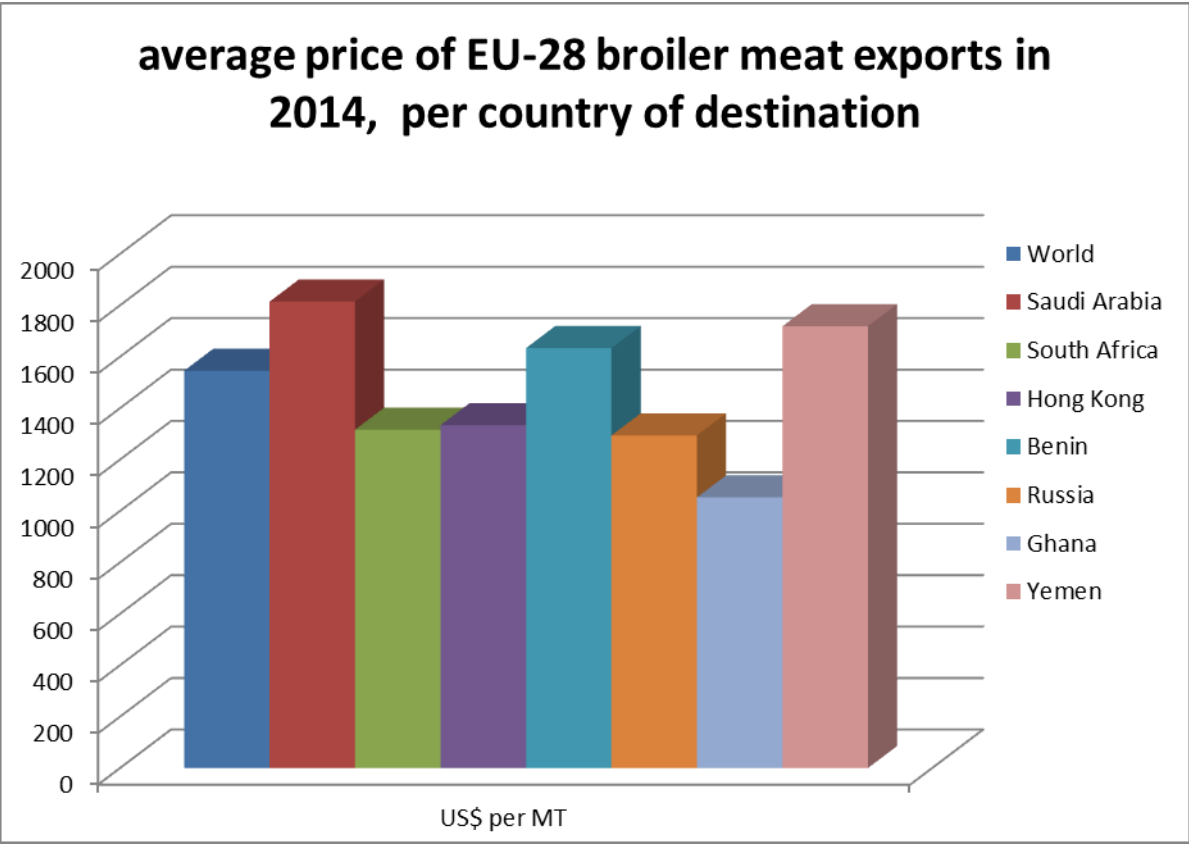
Exports of low-priced cuts and mechanically deboned meat (MDM) to Sub-Sahara Africa, especially South Africa and Ghana, will continue to grow in 2014 and 2015. With expected exports close to 165,000 MT in CY 2014, South Africa is now becoming the second largest customer of EU-28 broiler meat, after Saudi Arabia. Because South Africa substantially raised its anti-dumping import duties (from 22 percent to 73 percent) on bone-in broiler meat from Germany, the Netherlands and United Kingdom in early July 2014, the growth of EU-28 exports to this country are however likely to be slowed down in the second half of 2014 and 2015. A similar move by South Africa in 2013 on Brazil poultry impacted by 12 percent Brazilian broiler meat exports to South Africa.

EU-28 exports of broiler meat to Russia had already declined in the first half of 2014, well before Russia put in place a ban on many EU-28 food products including poultry meat, because EU broiler exporters were already facing stiff competition from Belarus and Brazil, as well as from increased domestic production. Thus, the Russian embargo is going to have a negative but limited impact on EU-28 broiler meat exports in 2014.

EU-28 exports of frozen cuts to Hong Kong and China are expected to decrease in 2014 and 2015, due to competition from other sources, mainly Thailand and Brazil. Note that close to 50 percent of EU-28 total broiler meat exports to Hong Kong (and 10 percent of EU-28 broiler meat exports to China) are made up of frozen broiler feet and were removed from FAS calculated trade data.



(Source World Trade Atlas)



(Source World Trade Atlas, data for Jan- May 2014)

Production, Supply and Demand Data Statistics:

Poultry, Meat, Broiler European Union	2013		2014		2015	
	Market Year Begin: Oct 2012		Market Year Begin: Oct 2013		Market Year Begin: Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Inventory (Reference)	0		0			
Slaughter (Reference)	0		0			
Beginning Stocks	0	0	0	0		0
Production	9,800	9,900	9,950	10,070		10,200
Total Imports	671	670	700	675		670
Total Supply	10,471	10,570	10,650	10,745		10,870
Total Exports	1,083	1,080	1,070	1,050		1,060
Human Consumption	9,388	9,490	9,580	9,695		9,810
Other Use, Losses	0		0			
Total Dom. Consumption	9,388	9,490	9,580	9,695		9,810
Total Use	10,471	10,570	10,650	10,745		10,870
Ending Stocks	0		0			
Total Distribution	10,471	10,570	10,650	10,745		10,870
MIL HEAD, 1000 MT, PERCENT, PEOPLE, KG						

Commodities:

Poultry, Meat, Turkey

Production:

EU-28 turkey production is now expected to decrease in 2014 and 2015, after a temporary surge in 2012 due to production hikes in the UK which were fueled by increased consumer demand, because of aggressive promotions and advertizing campaigns. In France, turkey production is not competitive compared to broilers, and processors have shut down several slaughterhouses for lack of profitability.

Consumption:

After stabilizing in 2012, mainly due to in-store promotions in UK, turkey meat consumption in the EU-28 resumed its decrease in 2013 and should do the same in 2014 and 2015. In some countries, such as

France, consumers continue to shift away from turkey to chicken, because it is considered tastier. Processors also prefer to switch to broiler from turkey as processing yields on carcasses are higher.

Trade:

Imports should remain stable under import quota control. French turkey exports to Africa are expected to slightly decrease, while German and Dutch exports to Russia should remain flat.

Production, Supply and Demand Data Statistics:

Poultry, Meat, Turkey European Union	2013		2014		2015	
	Market Year Begin: Oct 2013		Market Year Begin: Oct 2014		Market Year Begin: Oct 2015	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Inventory (Reference)	0		0			
Slaughter (Reference)	0		0			
Beginning Stocks	0	0	0	0		0
Production	1,985	1,950	1,975	1,920		1,900
Total Imports	90	84	90	67		70
Total Supply	2,075	2,034	2,065	1,987		1,970
Total Exports	140	144	130	127		125
Human Consumption	1,935	1,890	1,935	1,860		1,845
Other Use, Losses	0		0			
Total Dom. Consumption	1,935	1,890	1,935	1,860		1,845
Total Use	2,075	2,034	2,065	1,987		1,970
Ending Stocks	0		0			
Total Distribution	2,075	2,034	2,065	1,987		1,970

MIL HEAD, 1000 MT, PERCENT, PEOPLE, KG